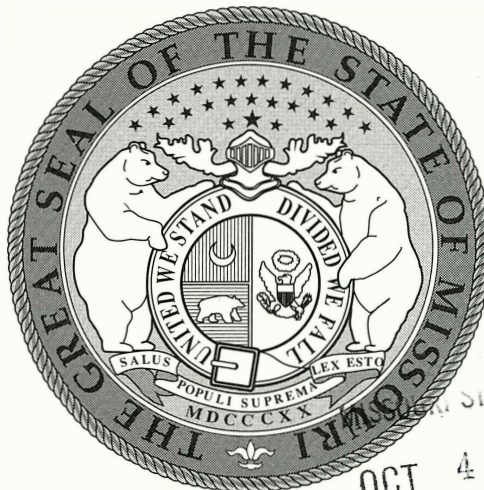


THE FINAL REPORT



OCT 4 1994 501
DEPOSITORY DOCUMENT

**EXECUTIVE
SUMMARY**

AUGUST 31, 1994

**COMMISSION ON MANAGEMENT
AND PRODUCTIVITY**



State of Missouri
COMMISSION ON MANAGEMENT AND PRODUCTIVITY

August 31, 1994

The Honorable Mel Carnahan
Governor of Missouri
State Capitol
Jefferson City, MO 65101

Dear Governor Carnahan:

On behalf of the members of the Commission on Management and Productivity, it is with great pleasure that the final Commission recommendations are submitted to you for your review and consideration. The following Executive Summary document categorizes and summarizes the recommendations of the Commission.

All six task forces, Management Improvement and Customer Focus, Organizational Planning, Efficient Operations, Automation, Fiscal Policy, and Work Force, have submitted an in-depth report of their recommendations. These extensive final reports are the culmination of thousands of hours of work on the part of the six Commission task forces.

The Commission members would like to express their gratitude to you for having had the opportunity to serve you and the citizens of Missouri in this capacity. Each member is dedicated to your vision of a state government that is lean, well-managed, and maximizes the Missouri tax dollar while providing the highest quality service to Missouri citizens. The driving force for the Commissions' efforts was your vision and the resulting document is intended to support that vision.

Thank you again for the opportunity to serve you and the citizens of Missouri.

Sincerely,

Michael H. Camp
Chairman
Commission on Management and Productivity

Steering Committee

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General Motors Corporation

VICE-CHAIR:

Roger B. Wilson

Lieutenant Governor

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Background

Governor Carnahan is committed to improving the efficiency and effectiveness of state government. Toward this end, by Executive Order, he established the Commission on Management and Productivity to conduct a major review of state government, evaluate its strengths and weaknesses, and prescribe reform. To ensure the success of this effort, a planning committee was established to review what other states have done to reform government, to recommend a methodology under which the Commission would function, and to identify major areas of focus for review.

The planning committee identified characteristics of successful management improvement commissions. The examination, along with discussions with the National Governors Association staff, indicated the following components of a successful commission:

- The commission includes a partnership of state, private and legislative members;
- Membership is selected for experience in management and productivity improvement;
- A central purpose and direction of the management improvement effort is clearly established by the Governor;
- The commission conducts fact-finding and analyses, and provides recommendations to the Governor; and
- The commission has a sunset provision to encourage a focused effort.

Vision and Mission

The vision for the Commission was established as follows:

The Governor's Commission on Management and Productivity shall examine all facets of the state government and its operation in accordance with the six established task forces. The final report shall be consolidated in a series of recommendations which can be implemented in a sequenced time frame. Once implemented, these recommendations would significantly improve the effectiveness, efficiency, and quality of government while simultaneously serving the citizens of the State of Missouri.

The task forces were given the responsibility for one of six focus areas. They based their work on the following mission statements.

Management Improvement and Customer Focus Task Force

Develop innovative management processes to provide services that exceed the needs and expectations of the public.

Organizational Planning Task Force

Develop an integrated strategic planning process for the State.

Workforce Task Force

Develop strategies to recruit, motivate, train, utilize, and retain state personnel to promote a high performance workforce, with emphasis on compensation, benefit, and recognition strategies.

Automation Task Force

Develop strategies to improve existing information technology and create a plan to establish an infrastructure which supports innovative management solutions.

Fiscal Policy Task Force

Develop programs, policies, and procedures to promote prudent management of the State's financial and physical assets and to optimize resource opportunities.

Efficient Operations Task Force

Develop operational policies and procedures that improve economy, efficiency, effectiveness, and equity.

Recommendations

Each task force developed and submitted a report detailing the recommendations with supporting background, rationale, and implementation strategies. The recommendations have been categorized under three key areas. Those three categories include **Customer Focus/Responsiveness**, **Management Improvement**, and **Productivity**. The Customer Focus/Responsiveness category is the first recommendation and is supported by all those that follow. All the recommendations are customer driven and designed to improve the efficiency and effectiveness of state government in order to better serve its customer, the citizens of Missouri. The recommendations in the Management Improvement category are directed at improving the management of the State's resources—both its employees and its revenues. The Productivity recommendations are designed to improve the systems and processes in state government.

Customer Focus/Responsiveness

Adopt and implement proven and tested service improvement processes that focus state agencies on meeting and exceeding customer expectations.

The Management Improvement and Customer Focus Task Force recommends that all state agencies implement efforts to improve customer service from the customer's point of view. Departments would examine their customer service performance and implement those steps necessary to close any gaps between the current level of service and the service levels expected by their customers. This initiative would be phased in both across and within departments. A Commission on Excellence in Customer Service would be created to oversee the State's implementation efforts. Staff work would be provided by the Office of Excellence in Customer Service to provide technical assistance, advice, resources and implementation assistance to all state departments as they attempt to improve customer services.

Management Improvement

Develop and adopt a total compensation policy and process that encourages planning, appropriation, administration, and communication of employee salary and benefits as a total package.

The Workforce Task Force recommends the establishment of goals which specify the State's position in the competitive labor market and the balance between salaries and fringe benefits. In addition, it is recommended the policy demonstrate commitment to: use some portion of increases in general revenue to help fund employee increases; link salary to experience and performance; and maintain fair differentiation between jobs requiring different levels of skill and experience. The task force identified the need to increase communication of the issues surrounding employee benefits and salaries and their impact on the productivity of state government. A limited-term commission composed of the different departments of the executive branch, employee groups, several commissions, and the General Assembly is proposed as a mechanism to achieve these goals. The State could better allocate resources and provide greater value by allowing employees to design their own benefit packages in concert with their needs. The task force recommends a minimum benefit level to assure basic health insurance and other protection deemed essential, but beyond that, options may exist in life insurance, vacation, dental care, vision care, disability insurance, deferred compensation, and other services/benefits desired by employees. The flexible benefits program would include an annual personalized consolidated statement for each employee with individual benefit costs and values. A single annual appropriation request that encompasses the state contribution for medical and retirement benefits for all state employees is proposed.

Develop a mid-point-based employee salary administration system that addresses internal equity, external competitiveness, and cost effectiveness.

The Workforce Task Force recommends the following compensation adjustments to be funded each year. Adjust the entire salary classification grid and, therefore, the pay of all employees to begin addressing the competitive gap. Gradually advance all employees with successful or better performance to the midpoint

of the appropriate salary classification range. Provide a one-step performance-based increase for employees currently at or above the midpoint, whose work exceeds performance expectations or whose work is outstanding, to address the compression problem and reward exceptional performance. Reposition salary ranges of certain jobs to address unusually serious market dislocation and maintain external equity. The task force also recommends an inter-agency group to study the elimination of within-grade steps and the modification of the current grid structure. The proposals could be implemented through a pilot program to evaluate their potential for improving compensation policy and procedures.

Examine health care programs for state employees, in terms of overall philosophy, equity of programs, cost effectiveness, and value to the state. Adopt a common philosophy for the State's contribution to employee health premiums.

The Workforce Task Force recommends the State contract for a study to assess the four different health plans covering employees in the executive branch and make specific recommendations for implementation of various managed care practices. Managed care practices in these plans would restrain cost for the state as well as provide excellent care for employees. The task force recommends an employee cost share ratio, requiring each employee, even for "Employee Only" coverage, to pay a portion of the premium. Establishing a common contribution level will reduce some inequities and focus attention on the differences in the value of competing plans. Not all employees who have medical benefit payments taken from their payrolls reduce their pretax dollars by enrolling in the state cafeteria plan. By enrolling all state employees for participation in the Section 125 Flexible Spending Account, except for those electing to waive participation, the total dollars available to state employees for spending will increase and the State's contribution to social security will decrease.

Develop and implement a common philosophy and policy statement for all State employee retirement plans that establishes targets for replacement of gross income at retirement. Develop a methodology for retiree adjustments that more accurately addresses their position in relation to the consumer price index and the economy.

The Workforce Task Force recommends an average of 75% replacement at age 65 and 30 years of service through a combination of defined benefit and social security programs. Such targets give a basis for equitable decision making within the plans and helps employees understand, take ownership of and plan for their own retirement needs. The task force proposes an annual review for increases based on the cost of living and discontinuing retro-active increases.

Develop philosophies and strategies to effectively employ, at all levels of the workforce, both genders and the full range of ethnic groups as reflected in the population of the State.

The Workforce Task Force recommends the development of a recruitment strategy to increase the number of people of color and females at all levels of the workforce, to reflect the composition of the State's population. The selection and hiring process would be analyzed to determine if there are biases, exclusionary practices or preferential treatment. Screening, interviewing and testing procedures would be validated.

Develop and articulate a shared vision for Missouri and its people.

The Organizational Planning Task Force recommends the development of a shared vision that is the beginning of the Integrated Strategic Planning Process. This will set a direction for the State in areas that can be reflected in goals and objectives of state agencies. A shared vision will help the State position itself to take full advantage of emerging opportunities in order to meet the most critical issues and challenges facing the State over the next five, ten, and twenty years. The Governor, key staff and agency directors would be responsible for developing the shared vision, common mission, shared values and state goals. Involvement of legislative leadership and civic leaders could also be valuable to the development process.

Implement an Integrated Strategic Planning Process that will be used by the Governor's Office and the sixteen state departments.

The Organizational Planning Task Force proposes an integrated planning process model to provide the framework for: 1) creating a shared vision for the State and citizenry; 2) agency planning that is responsive to the vision and the individual department mandates; 3) integration of planning at various levels; and 4) a feedback loop based on the idea of continuous improvement, through the measurement of performance.

Support the continuation of the Integrated Strategic Planning Process.

The Organizational Planning Task Force recommends that agency directors develop incentives for staff at all levels to successfully implement a strategic planning process. The Governor and Legislature would annually recognize and promote to the public through the media, those exemplary agencies making significant contributions toward the State's shared vision. The Governor and Legislature would allow agencies to redirect resources toward the accomplishment of their strategic plan without risk of losing funds.

Implement an ongoing strategic information technology (IT) planning process which addresses statewide acquisition, implementation and application of information technology. The substance of the IT plan should coordinate directly with the State of Missouri's overall Strategic Plan, as one is developed.

The Automation Task Force recommends the development of an IT strategic planning process that addresses the needs of the State as a whole, the common needs of all state departments, and the individual needs of each. A new Office of Information Technology would be created, directed by a Chief Information Officer (CIO), and charged with responsibility for statewide planning and coordination. In addition, an IT Planning Board (comprised of high-level policy officials and members of the private sector) and an IT Advisory Board (comprised of state data processing managers) would be empaneled. The CIO would receive guidance from the IT Planning Board on policy changes and actions, and on formulation of the state's IT strategic plan. The IT Advisory

Board would provide guidance on technical standards, select and sponsor new technology research and development activities, and conduct operational and tactical planning. The two Boards would work in partnership to implement the statewide IT strategies. Opportunities to develop technology standards for use throughout all state agencies should be evaluated. The IT planning process should include an approach for evaluating and prioritizing new and emerging technologies.

Create an effective debt management policy for the State of Missouri, allowing the State to maximize its financial resources and improve the effectiveness of state government.

The Fiscal Policy Task Force recommends the establishment of a debt policy that creates opportunities for the State to use its resources more effectively and efficiently, while protecting the State's superior "triple A" credit rating. All the departments of state government and political subdivisions that issue debt should benefit from a debt policy. Further, the use of tax-exempt debt can be seen as a vehicle to obtain additional federal money. In some cases, state debt can be used as the State's match. The facilities of the State could be improved through the creation of a debt policy due to linking capital budgeting to debt management. By consolidating issuers and defining the type of debt issued, the State could realize cost savings through reduced interest rates. The task force assembled a draft of the Debt Policy as a starting point for discussion. The task force recommends the formation of an ad hoc Committee on Debt Management to review the draft and finalize it.

Develop a comprehensive long-term plan for state owned facilities and for preventive maintenance costs.

The Fiscal Policy Task Force recommends the development of a comprehensive long-term plan for state owned facilities and for funding preventive maintenance costs. The State could reduce its ongoing maintenance and repair costs. Each year the Division of Design and Construction submits a maintenance and repair bill to the General Assembly, only to receive funding for a fraction of the request. Based on a recent estimate, the State needs to spend \$328,000,000 to complete all outstanding maintenance and repair requests needed for state owned facilities. However, only

\$27,000,000 was appropriated for maintenance and repair in FY'98. Obviously, there is a large backlog of maintenance and repair projects that go unfunded each year which is a situation of concern as the average age of state owned facilities is 35 years.

Productivity

Establish a Performance Appraisal System that incorporates agency goals, including customer satisfaction, diversity, management/supervisory leadership, professional and personal development.

The Workforce Task Force findings indicate the performance appraisal process lacks credibility because the ratings are based on subjective data and could be inflated. The process could become more meaningful by including measurable performance objectives and standards for each rating category. The task force recommends that appropriate employees be held accountable for customer satisfaction, diversity, management/supervisory leadership and effectiveness, agency goals and other work objectives. Benefits include the potential for higher standards and performance, a more objective appraisal process and ratings more indicative of actual performance. Decision for pay increases can be based on measurable objectives and performance, provided funds are appropriated for this purpose.

Each department should implement a non-financial, department-driven employee reward and recognition program.

The Management Improvement and Customer Focus Task Force recommends that appropriate intrinsic reward programs be implemented to reduce the gap between customer expectations and levels of satisfaction. Data shows that, although financial rewards or cash gifts may be effective tools to reinforce desired behaviors, non-financial rewards may be more effective in reinforcing appropriate behavior. The implementation of a program to emphasize customer satisfaction will require new attitudes and behaviors on the part of state employees. These behaviors will be essential to the success of a customer satisfaction program and, therefore, should be recognized and rewarded. Each department will have unique behavioral needs of employees. Therefore, each department's intrinsic reward program must also be unique. In

fact, a reward program may be designed for employees delivering a specific service. In order to ensure that the rewards are valuable and meaningful to all employees, this program must be designed and implemented by employees themselves.

Identify for the General Assembly and the Governor's Office non-functioning state commissions and boards that would be candidates for elimination.

While the Management Improvement and Customer Focus Task Force recommends the creation of a Commission on Excellence in Customer Service, it does not want to make the structure of state government more complex by increasing the number of commissions and boards that already exist. The task force, with the assistance of research personnel from the Missouri House of Representatives and the Missouri Senate identified numerous commissions or boards which are non-functioning or whose members have not been named. The task force recommends that the General Assembly, in concert with the Governor's Office, review and identify all commissions and boards that are non-functioning or whose members have not been named, and reduce the total number of commissions and boards if possible. By doing so, the structure of state government will be made less complex, even with the creation of a Commission on Excellence in Customer Service.

Integrate state government mainframe computing resources.

The Automation Task Force recommends the State move decisively to consolidate the six independent mainframe data centers located in Jefferson City. Consolidation is a complex project and requires careful planning. For this reason, it is recommended that the affected departments participate in the development of a plan that does not jeopardize their respective missions.

Consolidate the State telecommunication networks to improve management, planning, operation, and expansion of available functions.

The Automation Task Force recommends the consolidation of management of voice, data, and video communication services into the Office of Administration. This single, consolidated

departmental structure would promote the coordinated planning, design, implementation and support of a statewide network. In conjunction with this consolidation, standards should be created which identify products and services (including network protocols, software and equipment) which will be used to develop a single statewide communications access system. In addition, a statewide network communications plan should be developed to forecast requirements for a three-year horizon, assess the architecture needed to support the state's communications infrastructure for the next ten years, and identify immediate cost saving opportunities associated with consolidation.

Implement a centralized Risk Management Division within the Office of Administration that is professionally staffed on a functional organizational basis to effectively and efficiently manage risk management exposures.

The Fiscal Policy Task Force recommends centralizing risk management to eliminate redundant processes within and among departments, to provide economies of scale in managing risk, to enable a professional staff to be developed that can maximize skill sets, to provide a common risk management strategy, and to provide the lowest cost structure while improving service levels. Risk management is decentralized under the Office of Administration, Department of Conservation, Department of Highways and Transportation and the University of Missouri System. These four risk management programs have different program, operation and financial structures and inequities exist among the structures.

Amend the State Treasurer's Investment Policy to extend maturities and expand the types of securities in which the State is allowed to invest.

The Fiscal Policy Task Force recommends amending the State Treasurer's Investment Policy to increase the yields on its invested funds, thereby increasing the amount of interest income. The current Investment Policy utilized by the State Treasurer's Office is restrictive, thereby preventing the State from maximizing its financial resources. The State is limited in the type of securities and the length of time it can invest its funds by the

Missouri Constitution and Statutes. Constitutional provision and statutory law excessively restrict the state from earning higher yields on its invested funds.

Adopt a fully performance-based budgeting system for resource allocation to be used across the entire State budget. The performance-based budgeting system should be mission-driven and oriented toward quality outcomes, encourage managers to be efficient, reward innovation and provide outcome data to decision makers.

The Fiscal Policy Task Force recommends the State initiate, coordinate, develop, implement, continuously monitor progress, and refine a performance-based budget process. State agencies would be responsible for developing measurable outcome-related performance measures. Further, the task force identified deficiencies in the State's financial management system (SAM) and recommends the State develop and implement a new statewide financial management system. This new system should support program-driven budget planning and execution based on timely and accurate statewide managerial accounting information. Also, the system should support legislative program evaluation and performance auditing of statewide programs and services.

Create an ongoing process by which to identify, select and act upon consolidation, privatization, effectiveness and efficiency improvement opportunities.

The Efficient Operations Task Force recommends the creation of a Council on Efficient Operations and an implementation team to identify, select, implement and evaluate opportunities for such projects. In addition, the task force recommends the following specific projects for consolidation and or privatization. First, consolidate departmental printing from its current decentralized, independently managed state to a centrally managed approach with responsive point of need satellite locations as necessary. Second, consolidate selected agency warehouse/storage areas located in Jefferson City into a single warehouse facility operated by the Missouri Correctional Enterprises. Finally, Jefferson City mailing/postal services for state government is also a candidate

for consolidation into a single service, utilizing more than one eight-hour shift. Other potential opportunities that the Council on Efficient Operations could study include fleet maintenance, state testing laboratories, statewide communications, and laser printing.

Decentralize the human resources delivery system to empower State agencies to effectively and efficiently manage their workforce and personnel functions.

The Efficient Operations Task Force recommends renaming the Personnel Advisory Board and the existing Division of Personnel to the Board of Human Resources and the Division of Human Resources. These changes are intended to reflect the board's and the division's new roles under the proposed decentralized system. The necessary equipment, software and training would be provided to implement a comprehensive applicant and personnel data base accessible to all agencies. Through a properly developed and maintained job information clearinghouse, a variety of services could be provided to the state agencies relative to candidate information, profiles, skill banks, recruitment announcements and consultative services. Applicants could be furnished general job information, guidance on the application process, placement in central skills banks and immediate access to job information via telephone access. Authority to recruit, evaluate and hire for most positions would be delegated to state agencies, so that hiring may be done for specific jobs, not general job classifications. Under the revised hiring system, the Division of Human Resources would have a greater role in reviewing agencies' performance and implementation of the recommended procedures. Existing job classifications would be merged into broader, more generic classifications to increase management flexibility, minimize the need for job evaluation, and reduce the number of vertical levels and job titles. A broad range of recruiting tools and approaches would be developed to allow more focused, faster hiring and to improve access to various candidate pools. A statewide Comprehensive Policy on Career Development and Training would be established for the State workforce with emphasis on quality management, performance outcomes, meeting customer needs and accomplishing the performance objectives of the agency.

Promote a more efficient and effective statewide procurement process.

The Efficient Operations Task Force recommends that procurement statutes be revised and consolidated into a uniform code that will support effective and efficient purchasing processes. Major revisions include the following: increase the “no bid” limit, increase the formal bid limit, authorize the use of negotiations, authorize the use of sole source, provide use of multi-year contracting, and authorize the use of electronic information exchange. The task force recommends an integrated statewide procurement data system which will lower costs per invoice, decrease stock outages and alleviate the need to maintain large inventories. The task force recommends a procurement partnership program between the Office of Administration’s Division of Purchasing and Materials Management and the departmental procurement functions so that periodic reviews of the procurement processes will be performed with the goals of eliminating inefficiencies, improving communications, and improving procurement effectiveness.

Structure of the Steering Committee

The Missouri Commission on Management and Productivity has been based upon the experiences of other states who have conducted successful management and productivity reviews. A Steering Committee was established, composed of private sector executives, legislative members and state senior-level managers, to ensure a partnership in reviewing state operations, developing recommendations for improvement, and implementing changes.

The Steering Committee is chaired by a private sector executive and supported by two vice chairs from state government management. The remaining membership of the Steering Committee includes legislators with expertise and interest in government improvement, and state and private sector senior-level managers who have led task forces in the actual reviews and analysis of state agency programs.

Structure of the Commission Task Forces

The Missouri Commission on Management and Productivity includes six task forces, each chaired by a private sector member and supported by a vice-chair from the state. In total, each of the six task forces is comprised of eight to ten private sector executives, five to six state managers and two legislators.

Each task force met one day per week over a six month period. Each task force examined issues in one of the following focus areas: fiscal policy, workforce, management improvement and customer service, efficient operations, automation, and organizational planning. The task forces have conducted analyses and developed recommendations for the Commission. This model has expanded the Commission's ability to examine a number of state programs and bring in expertise in a variety of areas to improve management and productivity in state government.

Structure of the Missouri Commission

Staff Support for the Steering Committee and Commission Task Forces

The State of Missouri contracted with Price Waterhouse to provide project management services. An on-site project manager was designated to plan, organize, direct, and control the efforts of the Commission. In addition, Price Waterhouse provided a standard methodology to ensure consistency of work produced by each of the task forces. To support the work of the Steering Committee and the Commission Task Forces, the Executive Branch departments (sixteen departments in total) designated one professional staff and one support staff to work full-time during the six month review and recommendation process.



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